

## Section 8.1: Electric Utilities in Kansas

### Topic / Issue Description

Electricity in Kansas is provided by three types of utilities: investor-owned utilities, municipal utilities, and rural electric cooperatives. Electric utilities in Kansas are regulated by both the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC) (see discussion below).

Investor-owned utilities (IOUs) are operated by public corporations, and their stock is traded publicly and owned by shareholders. The IOUs operating in Kansas are Westar Energy, Kansas City Power & Light (KCP&L), and The Empire District Electric Company. Westar operates 12 power plants and owns over 33,000 miles of transmission and distribution lines. Its service territory covers about 10,130 square miles in east and east-central Kansas, and they provide electricity to more than 675,000 customers.<sup>1</sup> KCP&L is based out of Kansas City, Missouri, and has a service territory of approximately 18,000 square miles in areas of northeastern Missouri and eastern Kansas. KCP&L operates nine power plants, supplying power to over 800,000 customers in Missouri and Kansas.<sup>2</sup> The Empire District Electric Company is headquartered in Joplin, Missouri, and provides electric, natural gas, water, and fiber optics services throughout western Missouri. Outside Missouri, Empire serves about 168,00 customers in parts of three counties in Oklahoma, part of one county in Arkansas, and part of Cherokee County in Kansas.<sup>3</sup>

Kansas municipal utilities are customer-owned, not-for-profit, public power systems, operated by municipal governments. Their rates are set by the city council, commission, or a representative municipal board. The largest municipal utility is the Kansas City Board of Public Utilities, which serves approximately 69,000 customers in Kansas City, Kansas. Although roughly half of the state's municipal utilities own and operate generating units, most municipal generation is operated only to serve demand, and the majority of the energy delivered by municipal electric utilities (also known as public power systems) is purchased through long-term contracts or on the wholesale market.

Many municipal electric utilities in the state also work through a joint action agency to coordinate energy purchases. Under the provisions of K.S.A. 12-885, two joint action agencies, the Kansas Municipal Energy Agency (KMEA) and the Kansas Power Pool (KPP), operate in Kansas. KMEA, established in the late 1970's as a partnership of ten municipal utilities called the Northwest Kansas Municipal Energy Agency, has grown to 75 members from across the state. KPP was organized in 2005 after many municipal utilities were given notice of the pending cancellation of long-term power supply contracts and combined resources to realize significant financial savings. KPP has 39

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<sup>1</sup> Westar Energy, 2008, Our Energy:

[http://www.westarenergy.com/corp\\_com/contentmgt.nsf/publishedpages/corporate%20governance](http://www.westarenergy.com/corp_com/contentmgt.nsf/publishedpages/corporate%20governance) (accessed December 2008).

<sup>2</sup> Kansas City Power and Light, 2008, Company Overview:

[http://www.kcpl.com/about/about\\_corpintro.html](http://www.kcpl.com/about/about_corpintro.html) (accessed December 2008).

<sup>3</sup> The Empire District Electric Company, June 2008, Future Generation Planning, presented to the KEC electricity committee June 17, 2008: <http://kec.kansas.gov/electricity/index.htm>.

members across central and eastern Kansas, some of which are also members of KMEA. Both KMEA and KPP purchase blocks of electricity for redistribution to individual cities.

Rural electric cooperatives (RECs) are not-for-profit, member-owned electric utilities. Distribution cooperatives deliver electricity to consumers. Generation and transmission cooperatives (G&Ts) generate and transmit electricity to distribution co-ops. Kansas RECs are governed by a board of trustees elected from the membership. Most Kansas RECs were set up under the Kansas Electric Cooperative Act, which, together with the federal Rural Electrification Act of 1934, made electric power available to rural customers. Currently, Kansas has two G&Ts—Sunflower Electric Power Corporation, based in Hays, and Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered in Topeka—and 29 distribution cooperatives.

Some municipal utilities and rural electric cooperatives receive an allocation of renewable energy from federal hydropower projects, the Western Area Power Administration (WAPA) and the Southwestern Power Administration (SWPA). KPP also receives some hydropower from the Grand River Dam Authority (GRDA).

The range of services provided by electric utilities are defined as either primary and ancillary services. Primary services are those associated with the general operation of an electrical utility—namely, generating and delivering electricity to end users. Ancillary services, on the other hand, are those services necessary for ensuring the reliability of the transmission and distribution system within a utility's control area.<sup>4</sup> As defined by FERC, ancillary services include system control, regulation and frequency response, energy imbalance, reactive supply and voltage control, and spinning and non-spinning generation contingency reserves. The first three services—system control, regulation and frequency response, and energy imbalance—refer to measures undertaken to balance electricity coming in (via generation or wholesale transactions) with electricity going out through usage, at any given time in a utility's control area. Maintaining spinning and non-spinning generation contingency reserves involves having some generating units on standby (in essence, “turned on” or able to be “turned on,” even though disconnected from the grid) to quickly correct for unexpected generation and transmission outages. Reactive supply and voltage control is another ancillary service utilities provide in order to maintain stable voltages levels.<sup>5</sup>

*Kansas Corporation Commission*—The KCC is a state agency with the mission to protect the public interest through impartial and efficient resolution of all jurisdictional issues.<sup>6</sup> It

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<sup>4</sup> In general, a control area represents the physical network of transmission and distribution lines owned and operated by an individual utility. Within a control area, systems are put in place by the utilities that controls electricity generated by the utility generators, as well as electricity transfers to and from neighboring utilities. See Gegax, 2007.

<sup>5</sup> See Power Systems Engineering Research Center (PSERC), May 2001, Reactive Power Support Services in Electricity Markets: Costing and Pricing of Ancillary Services: <http://www.pserc.wisc.edu/ecow/get/publicatio/2000public/Report.pdf> (accessed December 2008); see also Douglas Gegax, 2007, Appendix 2: More on Ancillary Services.

<sup>6</sup> Information regarding the KCC was provided by Janet Buchanan, KCC Utilities Division; additional information came from the KCC and Westar Energy web sites.

regulates rates, service, and safety of public utilities. It also regulates oil and gas production by protecting correlative rights and environmental resources. Decisions are made by a three-member Commission appointed by the Governor.

In essence, the KCC's job with respect to electric utilities is to ensure that they provide safe, adequate and reliable services at reasonable rates. Setting the rates for the electric utilities under their jurisdiction—all of the IOUs and the larger cooperatives—is perhaps the most widely recognized KCC function (and certainly the one that receives the most attention from the general public—i.e., ratepayers). The KCC's rate-setting function is necessary because utilities in Kansas are granted a monopoly (that is, within their service territory, they don't have to compete for their customer's business). When utilities desire an increase in their rates, they submit an application to the Commission, in which they make a case for the level of revenue they need to continue to operate and provide safe, reliable service to their customers, as well as a reasonable return to their investors. The utility's rate case application also includes its plan for recovering that revenue through rates charged to various classes of customers. KCC staff supports the three-member Commission in the evaluation and analysis of the utility's rate case application and provides written testimony to Commission outlining and presenting evidence in support of staff's analysis and/or evaluation. The Commission is required to issue an order on a rate application within 240 days of its filing.

In addition to setting rates, the Commission is charged with the following responsibilities: (1) monitoring utility compliance with Commission orders; (2) investigating complaints regarding rates, quality of service, and safety; (3) reviewing energy procurement practices; (4) reviewing applications for siting of transmission lines; and (5) limited inspection of electric facilities.

Technical staff provides information to the Commission on issues under deliberation; legal staff provides assistance interpreting statutes and maintaining consistency of orders and regulations with the statutes guiding the Commission's duties.

In recent years, the Commission has investigated many issues related to the financial health of a utility. This includes the evaluation of merger and acquisition plans, use of utility assets as collateral in transactions, registration of securities with the SEC, and filings with FERC regarding the issuance of debt. The Commission has also become engaged in general investigations of utility-sponsored energy efficiency programs.

*Federal Energy Regulatory Commission (FERC)*—The FERC is an independent agency created by the federal government in 1977 to replace the existing Federal Power Commission in regulating the interstate transmission of electricity, natural gas, and oil. FERC's responsibilities were expanded under the provisions of the Energy Policy Act of 2005. With respect to electricity, FERC has four main functions: (1) regulation the wholesale sales of electricity in interstate commerce, (2) licensing and inspecting hydroelectric projects, (3) regulation of transmission to ensure the reliability of the nation's transmission system, and (4) oversight of environmental matters related to hydroelectricity projects and major electricity policy initiatives. FERC further oversees

the accounting and financial reporting of regulated utilities, creating penalties for organizations and individuals who violate FERC rules and regulations.<sup>7</sup>

*Southwest Power Pool (SPP)*—The SPP is a Regional Transmission Organizations (RTO), mandated by FERC (Order 2000) to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale prices of electricity. As a North American Electric Reliability Corporation (NERC) Regional Entity, SPP oversees compliance enforcement and reliability standards development. SPP covers a geographic area of 255,000 square miles and manages transmission in Kansas and Oklahoma and in parts of Arkansas, Louisiana, Missouri, New Mexico, Oklahoma, and Texas. SPP has members in these states as well as in Nebraska and Mississippi. Like other RTOs and ISOs (Independent System Operators), SPP serves as the regional “air traffic controller” of the regional grid, coordinates regional scheduling of power transfers and operates the Energy Imbalance Service (EIS) market, which allows utilities to purchase electricity to correct for shortages on a real-time basis. SPP also administers the Open Access Transmission Tariff, ensuring fair and open access to the transmission system for all customers.<sup>8</sup>

### Existing Policies and Programs

1. Chapter 66 of the Kansas Statutes deals with the state’s public utilities, including but not limited to electric utilities. Chapter 66, Article 1 includes the statutes delineating the powers of the Kansas Corporation Commission (KCC).
2. K.S.A. 10-1202 allows municipalities to issue and sell revenue bonds to cover the costs associated with acquiring, constructing, altering, repairing, improving, or enlarging the municipal utility.
3. FERC Order No. 888 requires all public utilities that own, operate, or control interstate transmission to file tariffs that offer other utilities the same transmission services they provide for themselves, with comparable terms and conditions. FERC Order No. 889 requires that utilities implement a standard of conduct and an Open Access Same-time Information System (OASIS) to ensure that transmission owners do not have an unfair competitive advantage in using transmission to sell power.<sup>9</sup>
4. FERC Order No. 2000 further encourages competition in the wholesale electricity market; it encourages utilities to voluntarily join Regional Transmission Organizations (RTOs) that have (1) independence from market participants, (2) an

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<sup>7</sup> Federal Energy Regulatory Commission (FERC), July 2008, What FERC Does: [www.ferc.gov/about/ferc-does.asp](http://www.ferc.gov/about/ferc-does.asp) (accessed December 12, 2008).

<sup>8</sup> Southwest Power Pool (SPP), 2008, What We Do: [www.spp.org/section.asp?pageID=23](http://www.spp.org/section.asp?pageID=23) (accessed December 12, 2008); see also Federal Energy Regulatory Commission, November 2008, RTO/ISO: <http://www.ferc.gov/industries/electric/indus-act/rto.asp> (accessed December 15, 2008).

<sup>9</sup> Convergence Research, 1996, Commission Orders Sweeping Changes for Electric Utility Industry: [http://www.converger.com/fercnopr/888\\_889.htm](http://www.converger.com/fercnopr/888_889.htm) (accessed December 15, 2008).

appropriate scope and configuration, (3) operational authority over transmission facilities within the region, and (4) exclusive authority to maintain short-term reliability. On June 23, 2006, Southwest Power Pool, which serves Kansas, was granted RTO status by FERC.<sup>10</sup>

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<sup>10</sup> See Energy Information Agency, 2000, Status of Bulk Power Transmission Systems: <http://www.eia.doe.gov/cneaf/electricity/epav1/bulkpower.html> (accessed December 15, 2008); see also, Federal Energy Regulatory Council, 2008, 124 FERC ¶ 61,220 Background: <http://www.ferc.gov/EventCalendar/Files/20080903174851-RT04-1-023.pdf> (accessed December 15, 2008).